



GOVERNMENT OF THE DISTRICT OF COLUMBIA
Department of Insurance and Securities Regulation
Captive Insurance Bulletin 2002 -01

I. Procedures for filing captive insurance company applications

In order to become licensed as a captive insurer in the District of Columbia, applicant should submit Captive Application for Admission Form #CAP0102. The form is available on the Department of Insurance and Securities Regulation web site at www.disr.washingtondc.gov or by contacting, Ms. Margaret Schruender, Insurance Director, on (202) 442-7766 or by e-mail at Margaret.Schruender@dc.gov.

Items required to be submitted with the Application Form:

- A. DISR Captive Application Checklist
- B. Business Plan Summary (Form #CAP0202)
- C. Draft articles, bylaws, participation, or shareholder agreements
- D. Draft service provider and Captive Management agreements
- E. Application Fee in the amount of \$500.00 and a Certificate of Authority Fee in the amount of \$300.00 made payable to the DC Treasurer
- F. A detailed Plan of Operation
- G. Biographical Affidavits for officers, directors, and attorney (Form #CAP0302)

Certified copies of items in C and signed copies of items in D should be submitted after the captive is organized. The Department of Insurance and Securities Regulations will notify an applicant if it is required to send the application for external review. The external review fee will not exceed \$5,000 for pure captive insurer and not to exceed \$7,500 for all other captive insurers.

II. Captive Manager Qualification Criteria

Individuals or business organizations may apply to be approved for the management of captive insurance companies licensed in the District of Columbia.

Applications for approval shall be made using Form #CAP0402

Approval will be given to individuals or business organizations with satisfactory expertise, experience and character, which will be determined as follows:

- a) Expertise. The applicant has the CPA designation or equivalent professional credentials to allow them to exercise oversight over the financial affairs of the captive insurance company.
- b) Experience. The applicant has adequate experience in insurance and reinsurance operations to allow them to exercise oversight over the underwriting activities of the captive insurance company.
- c) Character. The applicant has not been an officer or director or key management person for any insurance or reinsurance company or business venture which has been issued a restrictive order (suspension, supervision, revocation order, etc.) by any regulatory authority, or has applicant been convicted of any criminal activity involving an insurance or reinsurance company or venture.

Applicants approved as managers of captive insurance companies will receive a letter confirming approval from the Department of Insurance and Securities Regulation. The approval will remain in effect unless rescinded.

III. Captive Manager Responsibilities

1. Written Service Agreements

The captive manager will enter into a written services agreement with captives under management, describing services to be provided by the manager, and methods of compensation. Note that if the captive manager performs the duties of an insurance managing general agent, reinsurance intermediary, third party administrator, broker or agent, the manager must also be authorized by the Department of Insurance and Securities Regulation to perform these functions.

2. Basic Services that must be provided by all captive managers include:

- a) Communications: The manager will maintain a place of business that will be the home office of the captive in the District of Columbia. The captive manager will inform the Department of Insurance and Securities Regulation of any changes in contact names, addresses and phone numbers for captives under management.
- b) Reporting: Unless otherwise approved, the captive manager will provide a report of the financial condition of the captive to the captive shareholder(s) at least four times a year, and will file any financial or other reports as required by the Department of Insurance and Securities Regulation as described under Section III of this Bulletin. Quarterly financial report to the Captive Shareholder should be prepared on a GAAP basis, unless the captive's annual statutory report is to be filed using statutory accounting principles prescribed or permitted by DISR. The financial statements should include a balance sheet, income statement, statement of changes in cash flow, with

applicable notes and supporting schedules, including the calculation of the following Captive Operating Ratios:

Retained Loss and Allocated Loss Adjustment Expense / Net Written Premiums
Acquisition costs and General and Administrative Expense/ Net Written Premiums
Unimpaired Surplus/ Outstanding Loss Reserves or Policy Reserves
Net aggregate multi-line annual risk retained/ Net written premium plus capital & surplus

- c) Record Retention: The manager will maintain underwriting records evidencing all insurance and reinsurance activities of captives under management. See Section IV of this Bulletin for more information.

3. Sub-contracting

The manager will keep copies of all service agreements entered into by or on behalf of the captive insurance company, including services subcontracted by the captive manager to affiliated and non-affiliated entities.

4. Rescission of Captive Manager Approval

A captive manager will be notified that approval is to be withdrawn if:

- a) The manager knew or should have known and failed to inform the captive Board of Directors and the Commissioner of actions of a captive under management leading to revocation or suspension of the certificate of authority under D.C. Code, 2001 Ed. § 31-3904(1), (5)(6)(7) or (8).
- b) The manager fails to perform the Basic Services described under this section, or does not correct failures in internal control procedures identified in an independent audit or state examination.

The manager will be given an opportunity to respond to the notification of the rescission of approval as a captive manager. If the manager fails to provide evidence within 30 days of receipt of notification that deficiencies identified by the Department of Insurance and Securities Regulation are corrected, the captive manager will be removed from the list of approved captive managers in the District of Columbia.

IV. Reporting Requirements – Responsibilities of Captive Manager

- 1. Managers will file an updated Business Plan Summary, signed by two of the captive's executive officers, in conjunction with the filing of the captive's applicable Statutory Report.
- 2. Manager is responsible for requesting approvals from DISR to any proposed changes to a captive's Plan of Operations that will have a material impact on the captive's operations and/or Captive Operating Ratios. A material change is a change to any information in Questions 1 – 21 of the captive insurance company license application, or a change to any information in the Business Plan Summary that is projected to result in a change greater than 15% to any one of the Captive's Operating Ratios.

3. Manager should file updated financial projections (expected basis) every five years, or when material changes to the plan of operations change the Captive Operating Ratios.
4. Notification of Adverse Financial Condition: Within 15 days following the completion of shareholder quarterly financial statements, the Manager is required to notify DISR of any captive which is out of compliance with statutory capital requirements, or where there is a probability of future non-compliance, with procedures to be taken to ensure future compliance.
5. Statutory Reports
 - a) A captive insurer shall submit to the Commissioner on or before March 2nd of each year, a report of its financial condition. These financial statements shall be prepared in accordance with generally accepted accounting principles, subject to any useful or necessary modifications approved or accepted by the Commissioner.

All captive insurance companies shall have an annual audit by an independent certified public accountant, and the company shall file such audited financial report with the Commissioner on or before June 30th for the year ending December 31st immediately proceeding.

Pure Captives: A pure captive insurer may apply, in writing, for authorization to file its annual report based on a fiscal year that is consistent with the fiscal year of the parent company of the pure captive insurer. The financial statements shall be submitted on a form prescribed by the Commissioner issued by regulation.

Branch Captives: This type of Captive should include an Underwriting Schedule showing income, expense, assets and liabilities allocated to the branch operations. The financial statements shall be submitted on a form prescribed by the Commissioner issued by regulation.

Sponsored Captives: This type of Captive should include an Underwriting Schedule showing income, expense, assets and liabilities by protected cell. The financial statements shall be submitted on a form prescribed by the Commissioner issued by regulation.

Rental Captives, Agency Captives, Association Captives and Reciprocal Insurers: These types of captive insurers are required to submit an annual financial statement to the Commissioner on or before March 2nd for the year end immediately preceding, utilizing forms which shall conform substantially to the form of statements adopted by the National Association of Insurance Commissioners (NAIC) for property and casualty insurance companies.

Risk Retention Groups: These groups are required to comply with the statutory provisions detailed in DC Code Section 31-4102 et seq.

- b) The Manager is required to submit with its annual financial statement an actuarial opinion to determine the adequacy of the loss and loss adjustment expense reserves for all captives under management, unless a written waiver has been applied for and granted prior to the due date.
- c) The Manager will file all tax returns due to the District of Columbia Government and remit payment of taxes and fees for captives under management.

V. Record Retention Requirements for DC Licensed Captives

- 1. The captive manager will maintain and make available for inspection by the Department of Insurance and Securities Regulations at the captive's home office in DC, or at another location approved by the Department, copies of all policies or reinsurance agreements entered into by the captive; copies of organizational documents, Shareholder and Participant Agreements; Approved Business Plan Summaries and Financial Projections; copies of underwriting and claims records required to support payment of fees and taxes required by statute and the financial information reported to the shareholder.
- 2. Following termination of a management agreement between an approved captive manager and a DC licensed captive, the terminated manager shall inform DISR of the location to which the captive records are to be transferred.

VI. Procedures for Credit for Captive Reinsurance

- 1. The manager will review all reinsurance companies and reinsurance agreements for compliance with D.C. Code, 2001 Ed. § 31- 3912.
- 2. The manager will obtain financial statements for unauthorized reinsurers and maintain evidence of collateral for unauthorized balances.

VII. Captive Forms available at DISR web site

Application Form (Form #CAP0102)

Business Plan Summary-22a (Form #CAP0202)

Biographical Affidavit Form (Form #CAP0302)

Application for Approval as Captive Manager (Form #CAP0402)